The NHCN Annual Report on the Home Center Industry—pp. 33-98

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National
Home Center News ®

Vol. 10, No. 10 The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. May 7, 1984

The New York Stock Exchange opened April 19 with a new listing, The Home Depot (HD), trading initially at 19¼. On the floor of the exchange at the opening were Home Depot executives and directors (l. to r.) Ron Brill, Pat Farrah, Milledge Hart III, Berry Cox, Arthur Blank, Bernard Marcus, Ken Langone and Fred DeMatteis. NHCN photo

Warehouses come of age: 147 stores by year end

By Kenneth Schept
NHCN executive editor

NATIONAL REPORT—Next month will mark five years since the first two Home Depot stores opened on Friday, June 22, 1979, in Doraville and Decatur, Ga., northern suburbs of Atlanta.

Almost four years following their debut, there were still only eight warehouse stores in the country at the end of 1982: four Home Depots in Atlanta and four in south Florida. Then the gestation period of the warehouse store concept ended abruptly.

By the end of 1983, 11 chains were operating 47 warehouse stores in 17 markets stretching east to west from Long Island to California and north to south from Indianapolis to south Florida, for an explosive, one-year store count growth rate of almost 500%.

Before 1984 is half over, there should be another 46 warehouse stores for a total of 93 run by 19 chains in at least 37 markets.

And by the end of the year, *National Home Center News* forecasts that at least 21 chains will be operating an estimated 147 warehouse stores in 45 markets.

Looking at the growth phenomenon another way, warehouse store space, which totaled only 250,000 sq. ft. at the end of 1982, increased by approximately 1,120% to 3.1 million sq. ft. at the end of 1983. This year, the amount of warehouse storage space is expected to more than triple.

Perhaps an equally telling sign that the warehouse home center concept has finally come of age is the listing April 19 of The Home Depot on the New York Stock Exchange, after being traded over-the-counter since first going public in August 1981.

The heightening respectability of warehouse home centers, reflected in Home Depot's achievement, probably contributed to the propagation of the format, but it was not the only factor.

(Continued on page 35)

Lindsley shows new vitality in multistore conversions

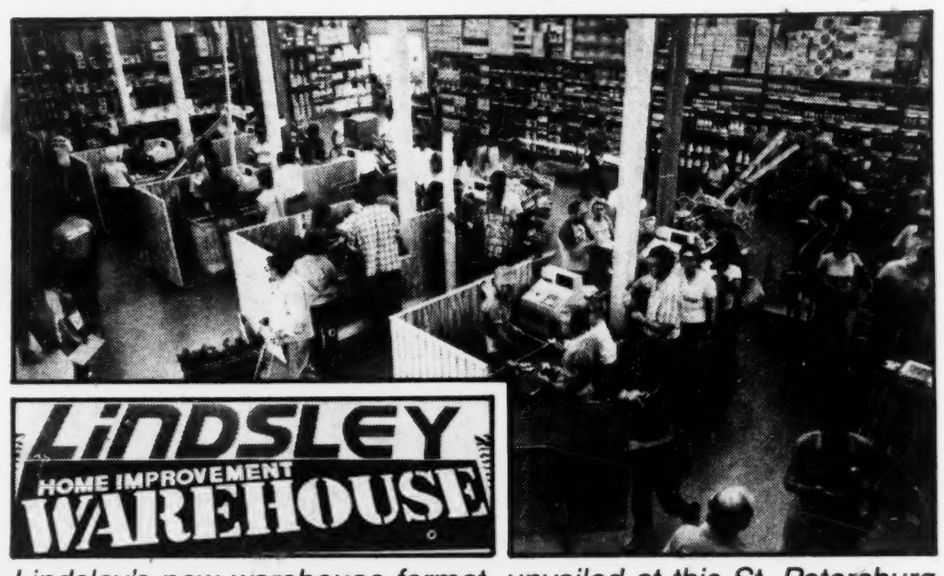
By Phillip P. Perry
NHCN associate editor

ST. PETERSBURG, Fla.—Lindsley, the 43-store Florida home center chain operated by Evans Products, is suddenly showing a new competitive vigor, as it readies for the grand reopening of its fourth "home improvement warehouse" to hit this market in the past two months.

The latest reopening, scheduled this month in Pinellas Park, follows the conversions of stores in Clearwater and Seminole which reopened late last month, and in St. Petersburg, which reopened in March. All four stores were closed earlier this year for over a month and totally refixtured.

Gone are the 6-ft. gondolas and in their place are 12-ft.-high H-frame racks. The refurbishing work collectively cost $1.2 million, according to a company spokesman, in addition to a virtual doubling of inventory throughout the stores.

The changes reflect similar moves already under way at Evans' Grossman's and Moore's chains, where conversions have reportedly tripled weekly sales during grand reopening periods, and are expected to at least double annual same-store sales.



Lindsley's new warehouse format, unveiled at this St. Petersburg unit in March, has helped more than double store sales for the Miami-based chain. NHCN photos

The new store format unveiled here, however, represents the first major change in direction for Lindsley in a number of years. In addition to the refixturing, Lindsley's St. Petersburg store is reportedly the first in the chain to be experimenting with a full-line outdoor nursery department as well as a price lookup system, designed by ICL, which developed point-of-sales systems for Grossman's.

The changes also serve as the first clear signal that Lindsley, once Florida's dominant home center chain, is finally reacting to the onslaught of Scotty's and The Home Depot. One Evans official acknowledged competition has intensified, but countered that Lindsley's 1983 sales had increased in line with the Evans retail group—about 17% over 1982—to $155 million, according to *NHCN* estimates.

(Continued on page 100)

Home-Pro's name periled by suit; Pro Hardware cites infringement

By Suzanne Chazin
NHCN field editor

CORPUS CHRISTI, Tex.—Home Centers of America is the target of a lawsuit which, if successful, would prevent the company from using the name Home-Pro for its stores anywhere in the country.

The suit, filed by Connecticut-based hardware distributor, Pro Hardware, asserts that the use of the word "pro" is a trademark infringement.

Last month in Corpus Christi, a Federal district court issued a preliminary injunction against Home Centers of America asking that the word "pro" be stricken from all of the company's operations.

"People are putting pro and pro together," claims plaintiff Pro Hardware.

Pro Hardware insists the injunction is not intended to curb competition from Home-Pro. "We've never had any desire not to have competition," says Pro Hardware's attorney, Cam Cuthrell. "But we want that competition to be fair. Pro wants to ensure that customers won't confuse us."

Pro Hardware is not seeking damages at this point, but Cuthrell says he suspects "if this case goes to permanent injunction, we will seek damages."

Home Centers chairman Frank Denny says he expects that the matter will be settled out of court. "We've had some problems with people not real-

(Continued on page 108)

1983 DIY sales leap 20%

Top 100's total sales exceed $14.6 billion

By Wyatt Kash
NHCN Editor

NATIONAL REPORT—Sales to do-it-yourselfers by the nation's top 100 home center retailers jumped 20% in 1983 while total retail sales to DIY-ers and professional accounts increased by 24%.

Fueled by the resurgence of consumer spending and new home construction, the 100 largest home center and building material retail operators saw aggregate sales surpass $14.6 billion in 1983 compared to $11.8 billion the year before. An estimated 71% of that volume last year came from DIY/cash and carry business.

In a ranking of retailers on the basis of DIY sales only, the top 100 chains, led by W. R. Grace, Payless Cashways, Evans Products and Lowe's, saw DIY sales increase to $10.6 billion, up from $8.9 billion the previous year.

The sales increases came from only a collective handful of net additional stores, with the top 100 DIY chains operating 4,259 stores at year-end 1983, only 55 more than at year-end 1982. *National Home Center News* estimates those same 100 operators will open at least 230 new stores in 1984.

These are some of the findings from *National Home Center News'* "Annual Report of the Home Center Industry," which this year, for the first time, ranks the leading home center and building material retailers two ways: One list follows *NHCN*'s traditional measure of

(Continued on page 4)

NEWSBREAKS

ZETZMAN RETURNS. Wayne Zetzman has accepted a position with St. Louis' Eclipse Industries as senior vp-cfo. Zetzman, who had been Payless Cashways vp-finance until late last year, returns to the home center industry after a brief stint with Household International, Chicago.

INSIDE:

ADDITION OF COTTER co-op to Eagle purchase order system lends credibility to the system's industrywide potential **Page 2**
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NHCNews Briefs

Industry Update

Grossman leaves Evans board

PORTLAND, Ore.—Mike Grossman, president of Evan's Products retail group, has resigned from Evans board of directors along with three other Evans executive vice presidents who also served on the board.

The resignations further demonstrate the control Miami financier Victor Posner has assumed over the company. Only two board members who served before Posner became chairman, in April 1983, remain. They are R. W. deWeese, a Portland businessman and Monford Orloff, former Evans chairman, president and ceo, who has relinquished to Posner all but the title of president and coo.

Resigning along with Grossman were Peter Koehler, president of Evans' forest-fiber products group; William Finkenstaedt, president of Evans shelter group and John Felten, president of the transportation group.

It is not clear why these four resignations occurred, in March, although in the case of Koehler and Finkenstaedt, the Evans board that month also voted to divest the divisions they headed. Other circumstances may have influenced Felten's decision.

Grossman's departure, however, could follow the pattern set by Koehler and Finkenstaedt in that it might signal the imminent spin-off of Evan's retail group, which has been rumored for some time. Recently lenders have consented to the spin-off, after initial resistance (*NHCN*, April 23).

While Grossman's executives are not commenting, knowledgeable sources have previously pointed to this month as the earliest time in which—finances and other circumstances in place—the spin-off could occur.

Hines/Kindt takeover complete

CHICAGO—Edward Hines Lumber has consummated its proposed acquisition of seven-unit Kindt Corp., Lomira, Wis., for $8 million, according to Richard Denison, senior vice president and chief financial officer of Hines.

The combination gives Hines 32 retail outlets, all but the Kindt units essentially in the Greater Chicago market, with annual sales volume in excess of $120 million. In 1983, Hines' retail sector totaled $83.3 million in sales while Kindt did about $40 million in business. About half the volume at both chains came from DIYers.

Denison said Hines officials plan no major changes for its new acquisition at the outset and expected management at Kindt to remain intact. However, executive vice president Bruce Barter has left the company, forcing a realignment of the chain's top management.

Courtesy converting whse to store

MOUNT PROSPECT, Ill.—Courtesy Home Centers has acquired a 70,000-sq.-ft. warehouse, located on six acres of land in Skokie, Ill., which the company expects to convert into the chain's fifth store, as early as this September.

According to president, Joseph Ender, Courtesy will add 20,000 sq. ft. to the building for warehousing goods, and 10,000 sq. ft. of storage space under roof, leaving the original building for retail sales.

Ender said the new unit, which currently has a 30-ft. ceiling and a 250-car parking lot, would not be a warehouse store. The floors will be tiled over, he said, with the finished store reflecting the stylized image now associated with Courtesy Home Centers. He noted, however, that more merchandise, such as doors and windows previously kept in the warehouse, would be stocked on the floor.

National Home Center News

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Due to this special NHCN *Annual Report on the Home Center Industry, the Advertising & Marketing section, Systems & Operations section and Charles Gifford's column on Home Center Marketing Strategies do not appear in this issue. They will return in the May 21 issue.*

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Vol. 10, No. 10 May 7, 1984

Cotter installs Eagle computer; lends added credibility to system

By Phillip M. Perry
NHCN associate editor

CHICAGO—Cotter & Company, the $1.5 billion hardware wholesale cooperative serving 7,000 stores nationwide, joined the Eagle computerized purchase order transmission system last month.

Because Cotter is the nation's largest such cooperative and possesses a vast purchasing power, its decision to join Eagle potentially gives the system a new dimension of credibility in the home center industry.

"We are in a significantly better marketing position now," said W. Barry Moore, manager of computer services at the American Hardware Manufacturers Assn., which began offering the Eagle system to manufacturers, distributors and retailers early last year.

"A lot of our manufacturer prospects have said that there are just not enough of their customers on Eagle to warrant their joining the system," added Moore. "Just about all of those vendors are doing some business with Cotter."

Both Cotter and Federated Co Op, the Canadian wholesaling outfit which also joined Eagle in April, expect the system to speed both transmissions and confirmations of purchase orders, ultimately reducing costly inventory levels and incidents of stock outs.

The first purchase order transmitted by Cotter was for 108 stock keeping units of tools. Transmitted to the Cooper Group, Raleigh, N.C., the order specified that the tools be sent to Cotter's distribution centers in Manchester, N.H., and Pomona, Calif.

The Eagle system represents a natural enhancement of Cotter's present computerized communications system. The company's 11 nationwide distribution centers operate online during regular business hours in a nationwide network. The system allows immediate access to information about stock levels and outstanding order levels, at all locations, facilitating the transfer of merchandise where needed.

"We see the Eagle system as a step into the new era," said a spokesman for Cotter who requested anonymity. "Certainly, any kind of electronic communications shortens the overhead," he added, referring to the ability of the system to offer the company greater accuracy in ordering and faster access to product availability at vendor locations.

Both features, he explained, ultimately help in tightening inventory control, reducing the level of stock carried and insuring the correct merchandise is made available to stores.

"We have encouraged all of our distributors to join Eagle, and we are happy Cotter has done so," said George Huegerich, manager of sales service, domestic, at Cooper Tools. He added that his company gets faster access to customer orders through the Eagle system, which it joined last July.

"Orders which came to us through the mail were often delayed up to five or six days," he said.

Federated Cooperative, the member-owned wholesaling company based in Saskatoon, Saskatchewan, also joined Eagle last month.

Federated, owned by 385 associations of stores located in the four western Canadian provinces, anticipates that the Eagle system will cut its lead time by up to 10%, because it will allow it to bypass the time-consuming mail system. Lead time for its hardware items currently can run as long as 25 days.

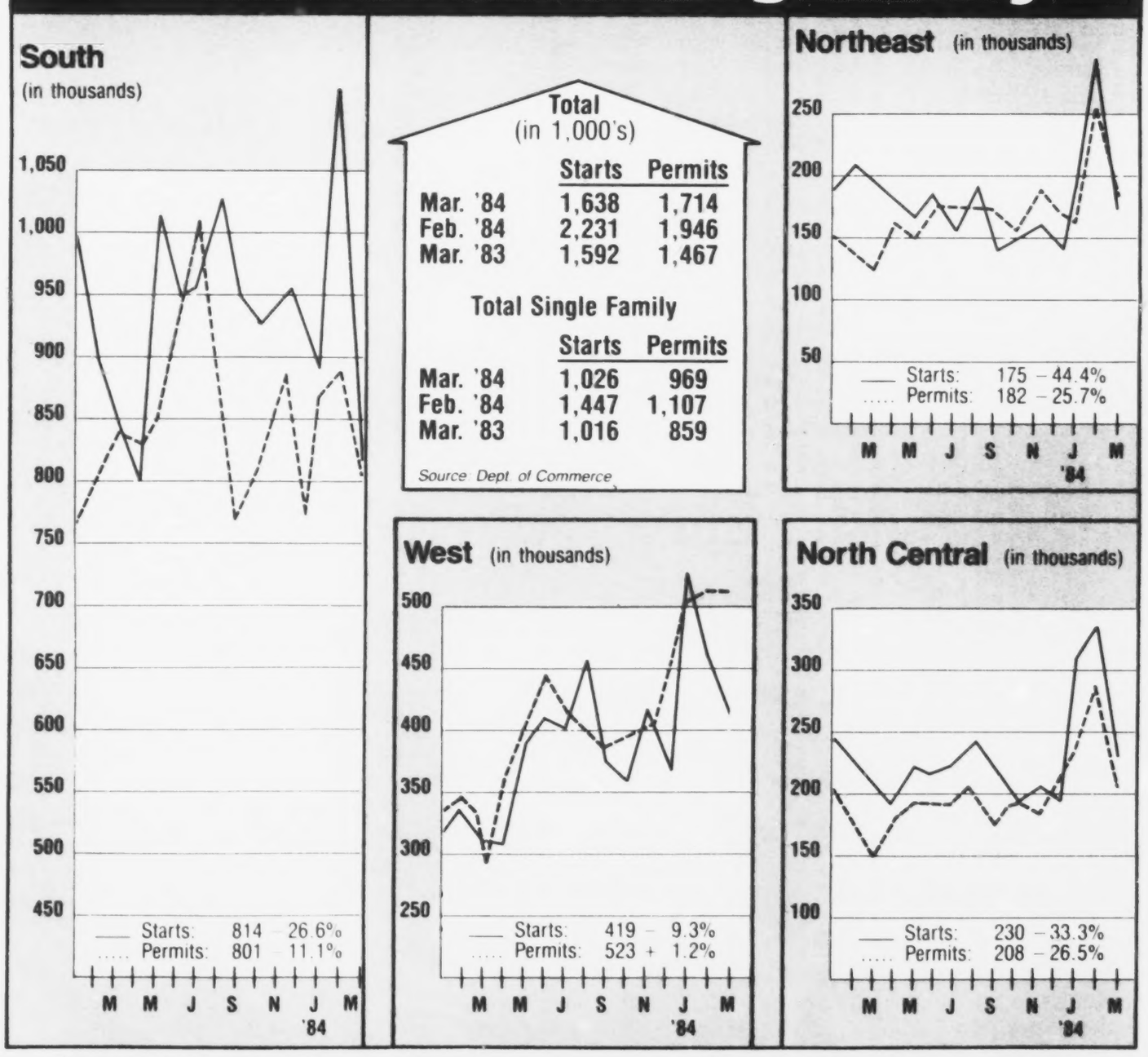
"In addition to streamlining our lead time, we expect Eagle will speed the transmission of confirmation notices from vendors," said Garry Fairbrother, hardware manager at Federat-

At the current time, only 12 of Federated's 800 or so vendors are either signed on, or testing with, Eagle.

"If we get to the point where 50 of our key suppliers are signed onto Eagle, we will feel it has become successful," said Fairbrother.

> *'A lot of our manufacturer prospects have said that there are just not enough of their customers on Eagle to warrant their joining the system. . . . Just about all of those vendors are doing some business with Cotter.'*
> —**W. Barry Moore,**
> *American Hardware Manufacturers Assn.*

March home-building activity



March housing starts plunge; foul weather cited

March's seasonally adjusted housing starts slumped to a rate of 1.6 million units, a drop of 27% from February's five year high. The Northeast had the greatest decrease with 44.4% and then the North Central region with 33.3%. All regions were down. Building permits fell by 17.5% from February to 1.7 million units, seasonally adjusted. However, starts remain 2.9% above last year's figures and permits are up 16.8% from March 1983. The unusual strength of February's starts combined with poor weather in March were blamed for the decline.

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Industry's Top 100 surpass $14.6 billion in total sales

(Continued from page 1)

DIY sales activity, by ranking home center chains on the basis of DIY/cash and carry sales; the second list, being introduced this year, ranks home center and building material retailers on the basis of total retail sales, and includes 15 companies not on the DIY list.

The *NHCN* Top 100 lists reveal several points of interest. For instance:

- The top 10 home center operators in the industry collectively accounted for a little more than half of the total sales of the top 100 companies.
- The top 10 DIY retailers operated a total of 41 million sq. ft. retail selling space (excluding storage area); the top 100 operated twice that much.
- W. R. Grace, which leads the industry in sales to DIYers, became the second company in the industry to crack the billion dollar mark in total sales, after Lowe's, which continues to lead the industry on the basis of total sales. (Wickes had surpassed the mark in 1981, but slipped below it in 1982, prior to its filing that year for Chapter 11.)
- 84 Lumber continues to be the largest chain in the industry by virtue of the number of stores it operates—384 year end. The chain also opened more (net) new stores last year (20) than any other firm in the industry.
- Home Depot grew fastest in total sales of all the chains on the top 100 list last year, at the rate of 117%; although its total sales of $256 million was eclipsed by the dollar sales increases last year of both Lowe's (up $397 million) and Payless Cashways (up $261 million.)
- The top 100 companies, on the basis of total sales generated 38% of total industry sales, of 37.7 billion in 1983, among home center, lumber and building material retailers, based on unpublished Commerce Department data.
- When compared to total retail sales of all lumber, building material, hardware and supply dealers, which rose 18% to $52.8 billion in 1983, the top 100 companies accounted for 27% of the market.

Without doubt, the sales gains of the top 100 and the industry in general say as much about how strong 1983 was for retailers as it does about how tough sales were the year before.

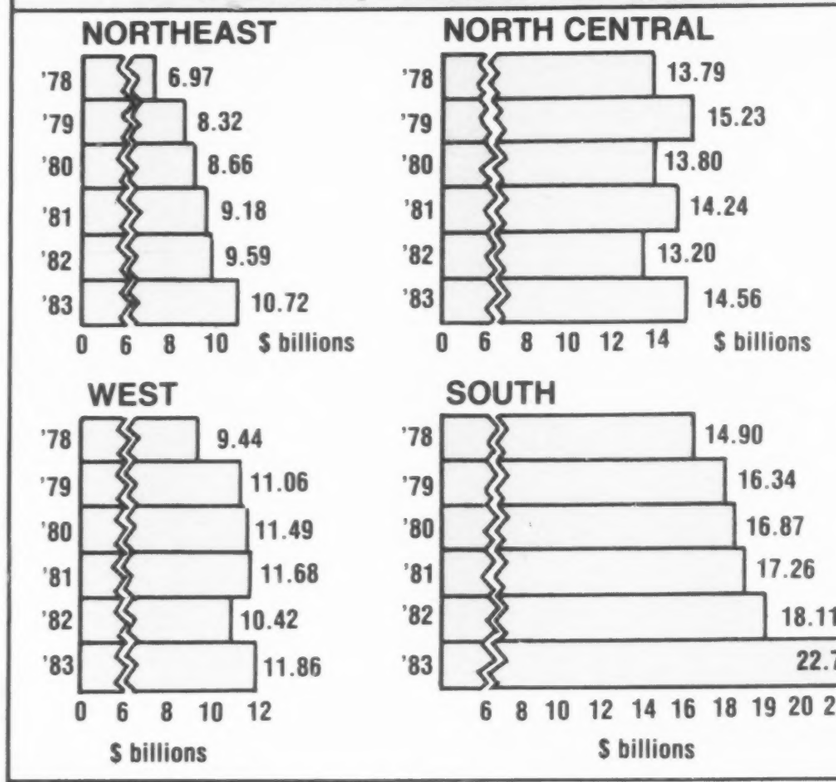
Using Commerce Department figures, *NHCN* estimates the total number of home center and retail lumber and building material outlets grew from 23,950 in 1982, to 24,600 last year.

Moreover, the vastly improved employment and personal income figures through the first three months of 1984 continue to indicate that consumers' cash flow has also improved.

As a result, sales from home center, building material, hardware and supply dealers is expected to continue to grow at better than 10% annually over the next two years, hitting $62 billion in 1984 and reaching $70 billion by 1985.

1983 dealer sales rose in all regions . . .

Retail building material, hardware supply sales



Source: U.S. Commerce Dept.

The South continues to lead the nation in sales among building material, hardware and supply dealers, which totaled $22.7 billion in 1983, up from $18.1 billion the year before. Altogether, homeowners spent $31.2 billion on additions, major replacements and alterations to their homes, and another $18.1 billion on maintenance and repairs last year.

. . . as home R, R & A spending jumped 8%

Residential repair, remodeling & alterations ($ million)

	All residential properties		
Type of construction work	1983	1982	1981
Total expenditures	49,295	45,291	46,351
Maintenance & repair	18,128	16,810	16,022
Heating & central a/c	991	836	750
Plumbing	1,684	1,799	1,870
Roofing	1,514	1,324	1,574
Painting	6,317	5,734	5,576
Siding	702	665	620
Other	6,919	6,451	5,632
Additions, alterations & major replacements	31,167	28,481	30,329
Additions to residential structure	4,739	2,641	3,164
Additions and alterations on outside property	3,859	5,423	5,303
Alterations within residential structure	11,673	10,711	11,947
Heating & central a/c	701	687	891
Plumbing	557	710	710
Remodeling	3,070	2,688	3,468
Other	7,345	6,625	6,877
Major replacements	10,895	9,707	9,915
Heating & central a/c	2,022	1,707	2,028
Plumbing	1,741	1,748	1,838
Roofing	3,579	3,780	3,352
Siding	1,917	1,351	1,517
Other	1,637	1,119	1,181

Source: U.S. Commerce Department

Correction

Peavey closed 11 of its 52 units in January 1982. The date reported in an article on Lanoga's acquisition of Peavey's building materials stores (*NHCN*, April 23, 1984) was incorrect.

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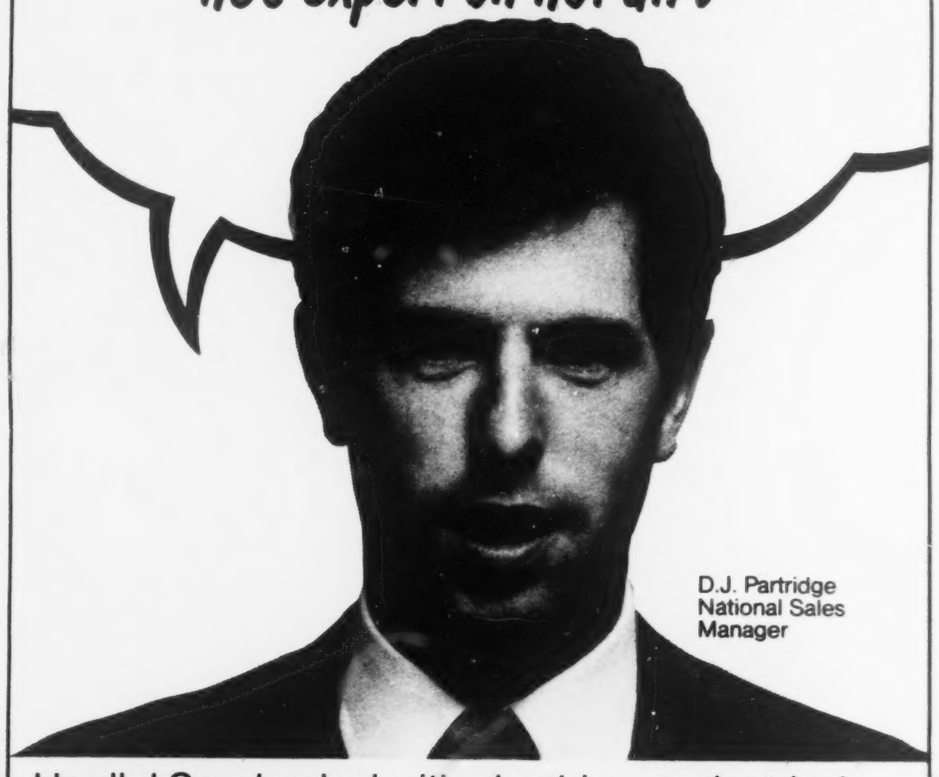

D.J. Partridge
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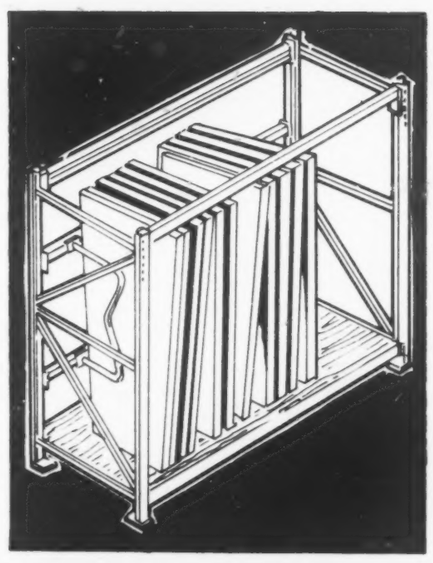

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SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Evans Products**	12/31-4th qtr.	237,997	191,350	24	17,960	16,019	12
	12/31-Year	927,758	790,320	17	69,609	56,262	24
Home Centers of America	2/26-4th qtr.	10,308	—	—	– 1,785	—	—
	2/26-Year	26,679	—	—	– 4,755	—	—
Lowe's	3/30-4wks.	120,800	93,500	29	—	—	—
Scotts Seaboard	1/28-4th qtr.	7,601	5,887	29	– 100	– 105	—
	1/28-Year	35,094	28,038	25	1,122	– 437	—

*$ in thousands
**Results from retail group only. Earnings figures equal operating income.

Source: Company reports

STOCK PRICES

		As of 4/18	52-week High	52-week Low	P/E Ratio
Boise Cascade (NYSE)		40¾	47⅜	34½	16
Edison Bros. Stores (NYSE) [Handyman, Homer's]		37½	46¾	35¾	8
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]		5⅜	19½	4⅞	—
Forest City (AMEX)	A	16	20⅛	11	12
	B	15⅜	20½	13	11
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]		42	50⅜	38⅜	12
Lowe's (NYSE)		18⅝	32¾	17⅝	13
Michigan General (AMEX) [Diamond Lumber]		6⅜	14	5½	17
Pay 'N Pak (NYSE)		14⅜	24	12¾	13
Payless Cashways (NYSE) [Furrow]		16	34½	15	13
Scotty's (NYSE)		14½	20	13⅛	13
Southwest Forest Industries (NYSE) [Dunlap's, Knox Lumber]		22	22½	12⅛	--
Standard Brands Paint (NYSE)		20¼	28¾	18	12

Nasdaq—over-the-counter stocks

		As of 4/18	52-week High	52-week Low	P/E Ratio
Color Tile		15⅞	25⅛	13⅝	—
Hechinger	A	14½	24¼	14	—
	B	15	26⅜	14	—
The Home Depot		19⅛	31¾	14	—
Pay 'n Save		17½	29¼	17⅛	—

Over-the-counter stocks

	As of 4/18 Bid	As of 4/18 Asked	52-week High (Bid)	52-week Low (Bid)
Erb Lumber	18	22	25¼	16
Hines Lumber	34	—	41½	21½
Home Centers of America [units]	19½	—	51½	13¼
Homecrafters Warehouse	13¾	14¼	17½	12½
National Lumber	6¼	6¾	13¼	6
Scotts Seaboard [Scott's]	3	3½	1	5
Wolohan Lumber	4¾	5	10⅛	4¾

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*For test information and results, send a request for information, on your company letterhead, to Test Results, United Coatings, Inc., 3050 N. Rockwell, Chicago, IL 60618.

FINANCIAL NEWS

Scotts sales increase 25% in '83

LINTHICUM, Md.—Scotts Seaboard sales increased 25% in its fiscal year ended Jan. 28 to help produce a $1.1 million net profit compared to a $437,000 net loss in the previous fiscal year, officials reported.

The 17-store chain's sales reached $35.1 million in the year.

The company's profit included after-tax income from continuing operations of $324,000, income from discontinued operations involving millwork wholesaler Seaboard Plywood and Lumber sold last July for $388,000, a $100,000 loss on accelerated payment of debt and a tax benefit from a net operating loss carryforward of $510,000, officials said.

In the prior fiscal year, Scotts Seaboard's loss included an after-tax $583,000 loss from continuing operations.

In the fourth quarter, the company had a net loss of $100,000 stemming from the accelerated payment of debt compared to a net loss of $105,000 a year earlier.

Lowe's sales up 29% in March

NORTH WILKESBORO, N.C.—Lowe's sales rose 29% in the four-week period ended March 30 to $120.8 million, according to officials.

The performance was bolstered by a 34% gain in professional sales to $61 million and a 25% rise in retail volume to $59.8 million from March 1983, they said.

Erb's net income hits $2M despite 4th quarter loss

BIRMINGHAM, Mich.—Better conditions in the residential construction industry combined with an improved economy and lower interest rates helped Erb Lumber increase earnings and sales last year, company officials indicated.

Erb's 1983 net income rose 154% to $2.1 million on a revenue gain of 41% to $137.3 million. The increases were achieved despite a fourth quarter which produced a $133,000 net loss on a sales gain of 36% to $33.6 million.

Erb officials attributed the fourth quarter loss to its Florida partnership joint venture, Erb Building Systems, which had a pretax loss of $869,000 in the period "due principally to efforts to expand its customer base in general contracting into a highly competitive new market area."

The fourth quarter also claimed a $326,000 charge from the last-in, first-out (LIFO) inventory reserve compared to a charge of $15,000 in the same period in 1982.

Palmer G. Lewis net earnings up 168% to $1.8M

AUBURN, Wash.—Building materials distributor Palmer G. Lewis experienced a 168% rise in net earnings to $1.8 million on a sales increase of 17% to $121 million in its fiscal year ended Jan. 27, officials said.

The annual results were helped by a fourth-quarter gain in net earnings of 110% to $366,183 on a sales increase of 10% to $24.5 million.

Company chairman Robert D. Peterson said fourth-quarter sales were below expectations primarily because of inclement weather in the firm's marketing area of the Pacific Northwest late in the quarter. However, he noted that sales in February, the first month of the current fiscal year, were up 22% from the previous year.